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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of

Tier Buy-Through
Prohibitions

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MM Docket No. 92-262

**COMMENTS OF
THE NATIONAL CABLE TELEVISION COOPERATIVE, INC.**

I. AN OVERVIEW OF THE COOPERATIVE

The National Cable Television Cooperative is the U.S. cable industry's only national purchasing cooperative. Founded in 1984, the goal of the Cooperative is to reduce the operating expenses of our member companies through group purchasing. Through our suburban Kansas City headquarters, our 325+ member companies participate in a wide variety of group-purchasing programs for the programming, equipment and services they use in their cable operations.

As a group, our member systems provide cable service to more than 2,000,000 households. Were we a single Multiple System Operator (MSO), the NCTC would be the cable industry's fourth-largest operating entity.

The cable industry in the United States can be accurately characterized as having a relatively small number of big-city cable systems, serving many subscribers, with a relatively large number of small systems serving small-town and rural communities. In fact, 69.31% of the cable systems in the United States serve fewer than 3,500 subscribers each.

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At the other end of the scale, just 10.2% of cable systems (1,131 systems with 10,000+ subscribers each), provide cable service to 77.81% of the industry's total subscribers.¹

Of our members' 2,500+ individual cable systems, fewer than 40 systems serve more than 10,000 basic subscribers. At least 2,000 of the remaining systems have fewer than 1,000 basic subscribers, and a majority have less than 250 basic subscribers.

¹The National Cable Television Association's Research and Policy Analysis Department accurately displays this description on pp. 10-A of their October 1992 issue of Cable Television Developments:

SYSTEMS AND SUBSCRIBERS BY
NUMBER OF SUBSCRIBERS IN SYSTEM

<u>Subscribers in System</u>	<u>No. of Systems</u>	<u>Percent of Systems</u>	<u>No. of Basic Subscribers</u>	<u>Percent of Subscribers</u>
50,000 or More	217	1.96%	21,050,733	40.05%
20,000 - 49,999	416	3.75%	12,786,462	24.33%
10,000 - 19,999	498	4.49%	7,060,114	13.43%
5,000 - 9,999	636	5.74%	4,477,322	8.52%
3,500 - 4,999	415	3.74%	1,730,157	3.29%
1,000 - 3,499	1,868	16.85%	3,545,355	6.75%
500 - 999	1,405	12.67%	1,002,126	1.91%
250 - 499	1,465	13.22%	525,000	1.00%
249 or Fewer	2,945	26.57%	380,113	0.72%
Not Available	1,221	11.01%	--	--
TOTAL	11,086	100.00%	52,557,382	100.00%

II. THE NCTC'S POSITION ON REQUIRING ADDRESSABILITY

In our opinion, should the Federal Communications Commission promulgate rules requiring "Anti-Buy Through Prohibitions", such rules would work a great financial and technical hardship on smaller franchised cable television systems.

The front-end costs of purchasing and installing electronically-addressable systems in small cable systems mean owners will be forced to spend, on a dollars-per-subscriber, large amounts of capital for a system they do not need and their subscribers cannot afford.

III. MARKETING, TECHNICAL AND HISTORICAL OVERVIEW

By definition, "Anti-Buy Through" to us means that cable television systems would have to be technically capable of providing channel-by-channel service to subscribers wishing to purchase less than a system's total offerings.

The marketing capability of allowing a subscriber to buy a so-called "Lifeline" service (normally defined as the local, off-air broadcast channels) along with a pay-TV channel (such as HBO), without being forced to buy an "Expanded Basic" or tier of additional channels, presupposes the technical capability of providing certain channels to some subscribers, while denying certain channels to others.

Carried to its logical conclusion, we end up with so-called "a la carte" retail purchasing, providing channel-by-

channel purchasing freedom. The subscriber receives only those channels he chooses to pay for.

This technical capability can only be provided by a complex, electronically-addressable system. Simply put, a fully-addressable system combines a customer service telephone answering system with a networked computer system. Electronic commands generated by Customer Service Representatives then travel through the cable system to be received by electronically-addressable set-top converters in customer's homes.

Custom software is required to allow CSRs to take a customer's order and then electronically and remotely direct that customer's set-top cable TV converter to "open" some channels while "closing" others -- all by remote control -- through the cable systems's own plant.

This computer system must of course be integrated into the system's retail billing system, so that an order for HBO to be transmitted to the subscriber's home results in a line-item in the monthly bill reflecting the retail price for HBO.

Such systems are not new. Fully electronically-addressable systems have been available for at least ten years, but they have usually been installed only in cable systems serving at least 10,000 subscribers. They are as rare as hen's teeth in small cable systems.

IV. ADDRESSABILITY AND SMALL CABLE SYSTEMS

The requirement for "anti-buy through" capability

requires at least one significant change from the way addressable systems are now implemented.

Today, cable systems that "go addressable" install set-top converters with unique electronic "addresses" only in the homes of subscribers who buy pay-TV channels in addition to the basic level of service. The number of addressable converters in such systems typically averages only 25% to 50% of the subscribers.

To provide full channel selectibility to all basic subscribers under the requirements as we interpret them in the proposed rule making, addressable set-top converters would have to be installed in all subscribers' homes throughout the cable system at a considerable increase in cost -- regardless of the level of service or number of channels purchased.

There remains another serious, though unintended, consequence of mandating the use of set-top addressable converters. All converters bypass the television set's own "cable-ready" features. The customer cannot use the remote control that came with his set, nor any of the advanced features such as digital "picture in a picture".

Since the set only receives one signal at a time -- the direct output of the converter -- the widespread use of set-top converters will exacerbate the service complaints from subscribers frustrated by their inability to use the features they paid for in their "cable-ready" television set.

V. NCTC MEMBER SURVEY

In preparing these Comments, we surveyed a selection of member companies about their approach to addressability. We wanted accurate data on their cable systems which already offered addressable capability.

We also wanted to know, from our members' experience, what they considered the smallest cable system (in numbers of basic subscribers served) which could justify the expense of installing electronic addressability.

We received completed surveys from 38 member companies, representing 669 franchised cable systems. The results were quite revealing:

Only 30 systems (4.48%) of the 669 cable systems responding now use addressable technology. Members estimated that the minimum system size required to justify installing addressability was 5,059 basic subscribers.

VI. THE NCTC'S RECOMMENDATION

To require small cable systems to purchase and install electronically-addressable systems in systems smaller than 5,000 subscribers is, in our opinion, sheer folly. The installation cost, billing computers, software and addressable converters needed might cost more than was spent to build the cable system!

In our view, should the Commission choose to require electronic addressability, it should concurrently provide a small-system waiver which fully exempts cable systems serving

fewer than 5,000 basic subscribers from meeting any "anti-buy through" or addressability requirements.

Respectfully submitted,



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President

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